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SUBJECT: COMMERCE UNDER SECRETARY MANCUSO DISCUSSES TRADE
EXPORT CONTROLS WITH COMMERCE MINISTER NATH

11. (SBU) Summary: In their February 28 meeting, Commerce Minister Nath stressed to Under Secretary Mancuso the importance of progress on all of the U.S.-India economic dialogues, including the HTCG, to ensure continued interest in the government-to-government engagement and forward progress in the bilateral economic relationship. U/S Mancuso said that he and his staff were committed to improving Indian access to U.S. high technology goods through the validated end-user program and other means, noting the significant progress made in this area since the HTCG was created. Both sides agreed that more engagement on HTCG was needed between BIS and the Ministry of Commerce and Industry. Mancuso reiterated the importance to the U.S. of finalizing the civil nuclear agreement this year. End Summary.

12. (SBU) Under Secretary of Commerce Mario Mancuso, accompanied by the Ambassador and Commerce Assistant Secretary Borman, met February 27 with Indian Minister of

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Commerce and Industry Kamal Nath prior to February 28-29 meetings of the High Technology Cooperation Group (HTCG). Mancuso told Nath that the U.S. views India as one of its most important relationships, involving many people at many levels. Nath said that India too highly valued its relationship with the U.S., adding, "let me tell you what others aren't saying." Nath noted that, when he met former Secretary of State Schultz in 1988 and they discussed

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regional terrorism, Schultz described it as a bilateral issue between India and Pakistan, while India saw it as a global problem. Nath said that when he again saw Schultz recently, the latter commented how much has changed with respect to terrorism.

13. (SBU) Shifting to economics, Nath said that it was important for the U.S. to recognize that "one size does not fit all", adding that India's size and markets make it very different from Peru or Colombia. Contrasting India with China, Nath said that the U.S. has not had the same trade issues with India as with China; when the MFA ended, it was China, not India, that flooded U.S. markets with textiles. Nath said it was in the interest of the U.S. that its leadership look at India uniquely.

14. (SBU) U/S Mancuso thanked Nath for his candor, agreed that India was unique and, therefore, he and his staff were

trying to think out of the box and how to move forward on strategic and high tech trade. Mancuso said that the U.S. is now having great success on this front: when the HTCG began in 2002, 25 percent of all US exports to India required an export license; now that number is 0.2 percent. Mancuso said that part of the problem today for some Indian companies is that they don't understand the process and benefits under the new Validated End User (VEU) program, and Commerce will continue to work with these companies and the GOI under the HTCG to fix this.

5.(SBU) Nath said that undoubtedly there had been movement and progress, but it must continue. India is now engaging globally both commercially and politically and this will be a continuous process as well between the oldest and largest democracies. Nath added that India, as a stable country with the second largest Muslim population, exists in a tough neighborhood surrounded by neighboring states in turmoil with mounting terrorism everywhere, presenting huge polity challenges to the GOI. This is another major reason why the U.S.-India relationship is so important. Nath noted that to keep the relationship strong, the two countries had to preserve and move forward on their economic engagement through the Trade Policy Forum (TPF) and its new Private Sector Advisory Group (PSAG), the Commercial Dialogue, CEO Forum, and HTCG. He added that he told this to USTR Susan Schwab over coffee at the February 19 TPF in Chicago.

16. (SBU) Mancuso responded that, while the U.S. has constraints like India, the two countries' trajectories are converging so "let me know what we can do and I will take it back to Washington." Nath said that the most important thing was for the bilateral economic groups we have established to continue and thrive. He noted that when he was Environment Minister and Bill Reilly was EPA Administer, the challenge was making the Rio Conference and Montreal Protocol on Climate Change successful despite wide divergences among countries. He said that the U.S. and India succeeded

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together in getting a good outcome and we must do the same with our bilateral economic groups: "we must show results or everyone will lose interest." Mancuso agreed, noting that the U.S.-India relationship enjoyed broad bipartisan support ever since former President Clinton began the move to accelerate the relationship that has continued under President Bush. Nath said that, in his view, the turning point started even earlier under the Bush one presidency, when President Bush upgraded the relationship, despite misgivings in the Washington bureaucracy. Mancuso said that, although it is not in his bailiwick, he did want to reiterate the U.S. strong desire to see the civil nuclear agreement completed this year, adding that, while our relationship is now very broad, some of the wind will go out of the sails in our relationship if the agreement is not completed.

17. (SBU) Nath asked what was the significance of the current election rhetoric on job loses under FTAs and outsourcing. Mancuso said that every country has a vein of protectionism that became more prominent in election years, but that it will eventually pass. The Ambassador noted that, given that the NAFTA has become prominent target in the Democratic campaign thus far, the outsourcing issue may have life for awhile, but it will not last, given the clear economic benefits from globalization. He added that Indian investment in the U.S. is a greater story. Nath agreed, citing as an example India's acquisition of the failing Essar steel mill in Minnesota that saved many U.S. jobs. Ambassador noted that it would be useful to get the Indian investment in U.S. numbers and Nath agreed. Nath also noted that Indian companies were outsourcing to countries like Sri lanka as well, where it as easier for Indian companies to set up and export to India under zero duties. The Ambassador noted that Indian IT companies are also hiring U.S. graduates.

18. (SBU) A/S Borman suggested that, to further the HTCG

dialogue, it would be useful to have more interaction with the Commerce Ministry, recognizing that MEA has the lead. Nath agreed that more coordination would be better and Mancuso said that his staff would brief Nath's staff before they depart on February 29 following the conclusion of the HTCG.

19. This cable was cleared by Under Secretary Mancuso's delegation before departing Post.

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